

NTT System SA

2022-12-02 08:40

Key data

Target price [PLN]	7,5
DCF Valuation [PLN]	6,6
Comparative Valuation [PLN]	10,1
Market price [PLN]	4,1
Growth/decrease potential [%]	82,2%
Market cap [mln PLN]	57,0
Free float [%]	22,2%
Industry	IT - hardware distribution
WSE code	NTT
Bloomberg code	NTT PW

Analysts

Łukasz Bryl

Tel.: 785 500 874

Company profile

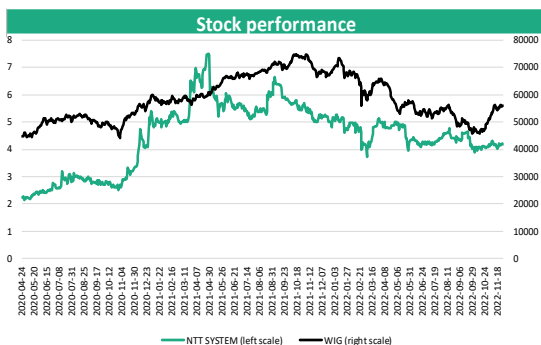
The largest Polish manufacturer of desktop computers, sold both under own and external brands. The company is also one of the leading distributors of accessories, components and peripherals in Poland.

Source: www.gpw.pl

Shareholders:

	[%]
Tadeusz Kurek	24,3
Davinder Singh Loomba	23,9
Andrzej Rymuza	8,3
Anna Maria Pytkowska	5,8
Barbara Kurek	5,5
Pozostałe podmioty	32,3

Growth factors	Risk factors
Strong demand for IT	Exchange rate fluctuations
Public procurement	Low company profitability
Rich offer	Costs pressure
Development of own brands	High financial costs



Source: DM Banku BPS SA calculations

Analysis of the results for the 3Q 2022

- **The published results for the third quarter of 2022 are once again record-breaking in the history of NTT System.** Company for the first time in the third quarter, generated sales of over PLN 300 million (PLN 300.9 million), which means an increase of 7.9% y/y and 3.4% q/q. In line with our expectations, revenues were higher compared to the same period of the previous year and better than in the second quarter.
- The most important segment of the Company remains the **distribution of components, accessories, peripherals and consumer electronics** (total sales amounted to PLN 209.1 million (increase by 6.1% y/y and 8.6% q/q)). In the second most important segment - **distribution of computers and tablets from other manufacturers**, there were also recorded y/y (plus 0.6%) and q/q (plus 24.5%) increases. The segment of **sales of own-produced and processed products**, which has been dynamically developing so far, is somewhat surprising, as in annual terms generated an increase (plus 24.2%), but in the quarterly terms there was a decrease by as much as 38.8%.
- The company generated an **operating profit of PLN 10.78 million** compared to PLN 5.95 million in 3Q 2021. **Net profit amounted to PLN 2.74 million**, which means a decrease by 32.8% y/y and 26.9% q/q.
- **Financial costs, which increased to PLN 5.9 million**, had a significant negative impact on the net financial result.
- In the third quarter, there was an **expected decrease in the net profit margin** (decrease by 0.5 p.p. y/y and 0.4 p.p. q/q), however the size of the decrease was larger than we expected, which we assess negatively.
- **We evaluate the results as moderately good** and at the level of net profit close to our expectations. Finally, we increase our valuation to PLN 7.5 per share (from PLN 7.0), due to higher multiples of peer companies and lower discount rates.

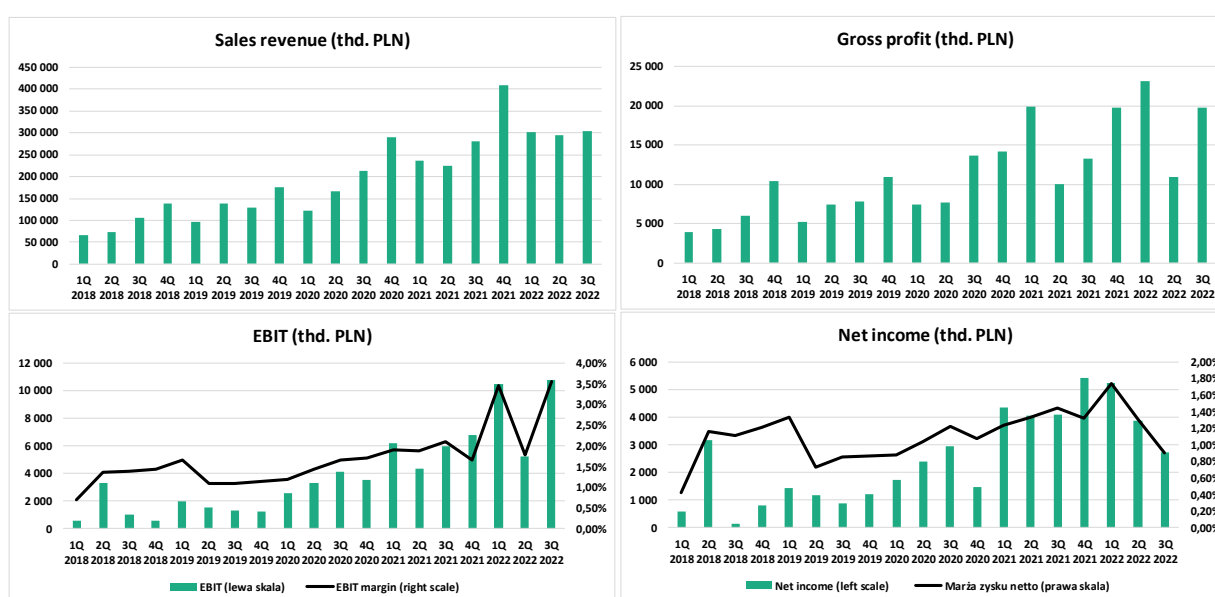
PLN thd	2021	2022E	2023E	2024E	2025E	2026E
Sales	1 152 274	1 276 970	1 445 201	1 554 058	1 639 982	1 768 192
EBITDA	24 079	24 645	26 434	28 418	30 003	31 994
EBITDA margin	2,1%	1,9%	1,8%	1,8%	1,8%	1,8%
EBIT	23 301	24 057	25 808	27 752	29 286	31 223
Net income	17 908	14 610	16 071	18 337	20 200	22 332
Equity	159 630	167 609	181 475	197 896	215 351	234 721
Net debt	-13 263	-8 119	-6 835	-12 801	-21 717	-18 653
P/E	3,18	3,90	3,55	3,11	2,82	2,55
P/BV	0,36	0,34	0,31	0,29	0,26	0,24
EV/EBITDA	2,92	2,64	2,41	2,46	2,62	2,36
EPS	1,29	1,05	1,16	1,32	1,46	1,61
DY	3,7%	7,5%	6,7%	7,6%	8,4%	9,2%

Source: DM Banku BPS SA, E - estimates

Financial results for 3Q 2022 against the DM Banku BPS forecasts

thd. PLN	DM BPS		Comparison to the			
	3Q 2022	forecasts	DM BPS forecasts	1Q 2022	2Q 2022	Change q/q
Revenue	303 726	327 518	-7,3%	301 300	293 738	-2,5%
Profit on sales	19 775	18 375	7,6%	23 119	10 938	-52,7%
<i>Sales margin</i>	6,5%	5,6%	+0,9 p.p.	7,7%	3,7%	-4 p.p.
EBITDA	10 961	4 209	160,4%	10 683	5 423	-49,2%
<i>EBITDA margin</i>	3,6%	1,3%	+2,3 p.p.	3,5%	1,8%	-1,7 p.p.
EBIT	10 777	4 025	167,7%	10 451	5 220	-50,1%
<i>EBIT margin</i>	3,5%	1,2%	+2,3 p.p.	3,5%	1,8%	-1,7 p.p.
Gross profit	4 868	3 187	52,7%	7 636	3 547	-53,5%
<i>Gross profit margin</i>	1,6%	1,0%	+0,6 p.p.	2,5%	1,2%	-1,3 p.p.
Net income	2 741	2 638	3,9%	5 250	3 864	-26,4%
<i>Net income margin</i>	0,9%	0,8%	+0,1 p.p.	1,7%	1,3%	-0,4 p.p.

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA calculations, Company

Expected impact: NTT System generated slightly lower revenues than we forecasted (PLN 303.73 million against the expected PLN 327.52 million). In turn, the generated net profit turned out to be higher than our forecasts by 3.9% (PLN 2.74 mln vs. the expected PLN 2.64 mln). Our forecasted net profit margin was 0.1 pp. higher than actually generated by the Company at the end of the third quarter. From a fundamental perspective, we positively assess sales growth in most operating segments, excluding the segment of products of our own production and processed products, which generates higher profitability compared to others. Higher sales did not translate into higher net profit, which in the third quarter recorded a decrease y/y and q/q. The main reason were high financial costs (PLN 5.91 million), which more than doubled y/y, and were more than 10 times greater than compared to last year. Thus, the Company's net profitability fell below 1% (0.9%), which we assess negatively.

Despite the uncertain macroeconomic environment, we maintain our forecasts. One of the main risk factors remains inflation, which increases the cost pressure and has a negative impact on the disposable income of households. From the point of view of Company profitability, we positively perceive the suspension of the monetary policy tightening cycle and the strengthening of the zloty against the dollar and euro (settlement currencies for purchases of imported goods).

Finally, we are increase our valuation to 7.5 per share (from PLN 7.0), which results from the update of data in the DCF model, the increase in the multipliers of peer companies and the decrease in discount rates. Taking into account the current market price of the shares, we still see potential for growth in the Company's value.

Basic definitions

CAPEX (capital expenditures) - investment expenditures on product development, system implementation (including intangible assets) or tangibles assets in the part in which the capital is intended to maintain the company's current ability to generate income.

DCF (discounted cash flows) - discounted cash flows; all future cash flows are estimated and discounted in order to determine their present value. The value of the discount rate used corresponds to the cost of capital and includes an assessment of the risk related to future cash flows.

DFCF - Discounted FCF (Free Cash Flows to Firm).

EBIT (earnings before interest and taxes) - operating income i.e. the income before deduction of taxes and interest.

EBITDA (earnings before interest, taxes, depreciation and amortization) - the company's operating profit before deducting interest on interest-bearing liabilities (loans, bonds), taxes, amortization and depreciation of tangible and intangible assets; here EBITDA = operating income + amortization of tangible fixed assets + depreciation of intangible assets.

EV (Enterprise Value) - total enterprise value; here EV = current stock market capitalization + net debt.

EV / EBITDA - the ratio is calculated by dividing the present value of the enterprise (EV) by the value of EBITDA.

FCFF (Free Cash Flow to Firm) - free cash flows for owners of equity capital and creditors, which can be defined as flows resulting from the company's operating and investment activities, after all financial expectations of capital donors, i.e. all parties financing the company, have been settled.

WSE – Warsaw Stock Exchange.

NOPLAT - net operating result less adjusted taxes; here NOPLAT = EBIT * (1 - tax rate).

P / BV (price / book value) - the ratio is calculated by dividing the current capitalization of a listed company by the book value of its equity, which is provided in the company's balance sheet.

P / E (price earnings ratio) - stock exchange ratio. It is calculated by dividing the market price of one share by the net profit per share.

PV TV - Present Value, ie the residual value (TV) discounted at the present moment.

CR - current report.

SB - Supervisory Board.

TV (Terminal Value) - residual value; enterprise value after the forecast period; here estimated with the help of the Gordon model.

WACC - weighted average cost of capital; financial indicator informing about the average relative cost of capital engaged in financing the enterprise.

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This report is published on the day of its completion on the publicly available website <https://dmbps.pl/wsparcie-analityczne/program-wsparcia-pokrycia-analitycznego-gpw/ntt-system-s-a>.

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https://dmbps.pl/informacje/228/Regulamin_zarzadzania_konfliktami_interesow_w_Domu_Maklerskim_Banku_BPS_SA

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List of recommendations issued within the last 12 month

Company	Recommendation	Target price	Market price	Type of recommendation	Date of Issue	Analyst(s)
VIVID GAMES	nd	1,23	1,34	Analysis of results	2021-12-02	Łukasz Bryl, Tomasz Czamecki
NTT SYSTEM	nd	8,3	5,16	Analysis of results	2021-12-03	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,3	2,57	Analysis of results	2021-12-10	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,6	3,17	Analytical report	2021-12-10	Artur Wizner
INTERFERIE	SELL	6,73	7,5	Initial report	2021-12-30	Łukasz Bryl
JSW	BUY	45	34,87	Analytical report	2021-12-30	Artur Wizner
JSW	BUY	46,4	35,4	Analytical report	2022-01-04	Artur Wizner
SNIEZKA	HOLD	84	79,8	Analytical report	2022-03-24	Artur Wizner
UNIBEP	nd	11	9	Analytical report	2022-04-21	Artur Wizner
NTT SYSTEM	nd	7,94	5	Analytical report	2022-05-04	Tomasz Czamecki, Łukasz Bryl
PROCHEM	nd	37	32,8	Analytical report	2022-05-10	Artur Wizner
VIVID GAMES	nd	1,25	1,17	Analysis of results	2022-05-13	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	3,6	2,8	Analytical report	2022-05-13	Artur Wizner
PROCHEM	nd	37	33,6	Analysis of results	2022-05-17	Artur Wizner
MONNARI TRADE	nd	5,5	3,5	Analytical report	2022-05-18	Łukasz Bryl
VIVID GAMES	nd	1,29	1,26	Analysis of results	2022-05-26	Łukasz Bryl
MONNARI TRADE	nd	6,21	3,87	Analysis of results	2022-05-31	Łukasz Bryl
NTT SYSTEM	nd	7,92	4,28	Analysis of results	2022-05-31	Łukasz Bryl
UNIBEP	nd	11	8,1	Analysis of results	2022-05-31	Artur Wizner
PROTEKTOR	nd	3,6	2,83	Analysis of results	2022-06-01	Artur Wizner
JSW	BUY	74	38,7	Analytical report	2022-09-12	Artur Wizner
UNIBEP	nd	10	7,2	Analytical report	2022-09-20	Artur Wizner
VIVID GAMES	nd	1,07	1,03	Analytical report	2022-09-29	Łukasz Bryl
SNIEZKA	HOLD	67	64,2	Analytical report	2022-09-29	Artur Wizner
NTT SYSTEM	nd	7,03	3,95	Analytical report	2022-10-04	Łukasz Bryl
PROCHEM	nd	30	34,8	Analytical report	2022-10-05	Artur Wizner
PROTEKTOR	nd	2,9	2,6	Analytical report	2022-10-12	Artur Wizner
MONNARI TRADE	nd	6,74	3,87	Analytical report	2022-10-21	Łukasz Bryl
PROCHEM	nd	30	35	Analysis of results	2022-11-15	Artur Wizner
UNIBEP	nd	10	8,84	Analysis of results	2022-11-18	Artur Wizner
VIVID GAMES	nd	1,09	1,05	Analysis of results	2022-11-29	Łukasz Bryl
MONNARI TRADE	nd	7,20	4,85	Analysis of results	2022-12-01	Łukasz Bryl
NTT SYSTEM	nd	7,50	4,12	Analysis of results	2022-12-02	Łukasz Bryl